STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

The Peoples Gas Light and Coke Company	:	
	:	**01-0470**
Proposal to revise Riders SVT, AGG, Rider 2, Terms and Conditions, and Table of Contents.	:	

STAFF OF THE ILLINOIS COMMERCE COMMISSION'S REPLY TO BRIEF ON EXCEPTIONS OF THE PEOPLES GAS LIGHT AND COKE COMPANY AND BRIEF ON EXCEPTIONS OF THE CITIZENS UTILITY BOARD AND THE COOK COUNTY STATE'S ATTORNEY'S OFFICE

STEVEN G. REVETHIS
ANDREW G. HUCKMAN
Office of General Counsel
Illinois Commerce Commission
160 North LaSalle Street
Suite C-800
Chicago, Illinois 60601
(312) 793-2877

Attorneys for the staff of the
Illinois Commerce Commission

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NOW COMES the staff of the Illinois Commerce Commission ("Staff" and "Commission"), by its attorneys, and replies to the Brief on Exceptions of the Peoples Gas Light and Coke Company ("Peoples" or "Company" and "Peoples' BOE") and the Brief on Exceptions of the Citizens Utility Board and the Cook County State's Attorney's Office ("CUB and CCSAO" and "CUB and CCSAO's BOE"), both relating to the Corrected Proposed Order ("ALJPO") in this proceeding.

III. CHANGES TO RIDER SVT, SMALL VOLUME CUSTOMER TRANSPORTATION SERVICE

C. Supplier Single Billing

Reply to Peoples' BOE

The Company has dropped its opposition to supplier single billing and does not object to the ALJPO's conclusions, with one notable exception – it recommends that "Choices For You" program customers be entitled, upon request and at any time, to receive bills directly from Peoples rather than through their SVT suppliers (Peoples' BOE, pages 10-11). As Staff understands the proposal, suppliers are not obligated to rely on Peoples for the distribution portion of customer bills. Rather, upon customer request for a Company bill, the supplier simply notifies Peoples that the distribution bill goes directly to the customer rather than through the supplier's single-billing process. Staff does not object to this plan, but recommends that SVT suppliers not be obligated to advise customers that Peoples has both single- and dual-billing alternatives available. Suppliers should not be required to advertise their competitors' services.

The Company evokes the specter of Enron Corporation's recent bankruptcy, coupled with Staff's report to the Commission on "The Unexpected Role of Agents in the

Illinois Electric Market" (ICC Staff Exhibit 3.0, Attachment 1, "Agency Report"), to supposedly demonstrate that even seemingly financially secure suppliers can fail to pay customer bills (Peoples' BOE, page 10-11). Setting aside the flurry of recent Enron headlines, there is no evidence in the present record suggesting that Enron's financial difficulties are harming natural-gas customers. Similarly Staff's Agency Report makes clear that supplier single billing is not creating customer difficulties:

> Perhaps more importantly, the Commission has not received even minimal numbers of complaints from customers regarding the agents active in the natural gas transportation market, where customers routinely employ agents.

(ICC Staff Exhibit 3.0, Attachment 1, page 2.)

(Staff recognizes that a supplier's customer contract might sometimes require that the supplier provide single-billing services. In such cases, Staff does not believe the Commission can or should compel suppliers to disregard their customer contracts, letting the Company directly furnish the distribution bill instead.)

IV. CHANGES TO RIDER AGG, AGGREGATION SERVICE

B. Daily and Monthly Delivery Tolerances

Reply to Peoples' BOE

Staff continues to dispute the Company's claim that daily delivery tolerance should be plus-or-minus 3% of required daily delivery quantity. In addition to the 10% daily delivery tolerance approved in the ALJPO, a considerable amount of daily flexibility remains that is not allocated to SVT suppliers. Staff's proposed heating-degree day adjustment – as well as CUB, CCSAO, and Illinois Attorney General's proposal to assign daily and monthly parameters over storage use – provides suppliers with greater access to available storage flexibility.

The Company argues that the ALJPO's 10% daily delivery tolerance affords SVT suppliers too much flexibility, challenging the ALJPO's reasoning (Peoples' BOE, page 6). Peoples' BOE suggests that the ALJPO adopts the 10% daily delivery tolerance because, first, there are concerns regarding the amount of flexibility SVT suppliers receive; second, resources other than Natural Gas Pipeline Company of America's transportation services are available to support the tolerance; and, third, the Commission recently adopted a 10% tolerance in Nicor Gas Company's "Customer Select" proceeding, Docket Nos. 00-0620 and -0621 consolidated (Peoples' BOE, page 6). Staff supports the ALJPO's conclusions regarding the 10% daily delivery tolerance and considers the Company's arguments flawed.

Regarding ALJPO concerns about the amount of flexibility available to SVT suppliers, the Company states that "flexibility under the Program should be based on the flexibility available to [the Company] and what SVT Suppliers are paying for through the Program charges." While Staff does not disagree, it is nonetheless concerned that the Company seemingly ignores its own position when it suggests the daily delivery tolerance be calculated by scaling down the delivery tolerance available on Natural Gas Pipeline Company of America (Peoples' BOE, page 6). Staff continues to believe that "the Company's proposed level of daily flexibility is far less than what suppliers deserve given the storage, transportation, and no-notice service costs that the Company proposes to recover from customers and suppliers through [the program charges]" (ICC Staff Exhibit 1.0, page 12).

Under the ALJPO, costs associated with on-system storage, off-system storage, and no-notice service are recovered from SVT suppliers and their customers through the Aggregation Balancing Gas Charge ("ABGC") and existing base-rate charges. In addition to the flexibility provided in the Company's pipeline-transportation contracts, on-system storage, off-system storage, and no-notice service provide flexibility to meet daily demand variability with storage injections and withdrawals rather than just spot sales and purchases. The present record demonstrates that the Company and non-SVT suppliers utilize the daily flexibility associated with these resources to meet large swings in demand, yet the Company's proposal and even the ALJPO's daily delivery tolerance fall short of providing SVT suppliers and their customers the daily flexibility they deserve. (Staff addresses its concerns regarding the ALJPO's lack of daily flexibility in the Staff of the Illinois Commerce Commission's Exceptions to Corrected Proposed Order, pages 4-9.) Staff's concerns notwithstanding, the ALJPO's 10% daily delivery tolerance is a step in the right direction supported by the storage and balancing assets customers and SVT suppliers fund through base rates and the ABGC.

D. Application Charge, Aggregation Charge and Customer Pool Activation Charge

Reply to Peoples' BOE

Staff agrees with the ALJPO that the number of customers used to develop the storage-inventory carrying-cost credit should be based on annual totals, not the Company's suggested customer average for the years 2002-2005 (Peoples' BOE, pages 14-15).

The Company's recommendation decreases the annual storage-inventory carrying-cost credit by spreading calculated savings over a larger number of customers, reducing amounts deducted from the aggregation charge's per-customer component, through which the ALJPO provides the credit to participating customers (ALJPO, page 63).

As the ALJPO notes, both Staff and the Company favor an annually revised storage-inventory savings credit reflecting updated savings-calculation components (ALJPO, page 63). Staff and the Company also recommend individual-customer credits. While the ALJPO adopts an average annual-credit methodology instead, Staff nonetheless favors annual revisions to customer numbers as well as other components of the savings formula. Staff's revision methodology ensures the savings credit is based on annual averages and uses current information for each formula component. The Company's divergent methodology, which Staff opposes, instead uses a multi-year average number of customers for this important component of the savings formula. The Company justifies its deviation from the ALJPO's accepted methodology by suggesting that "enrollment limits and cost data" are based on multi-year data samples (Peoples' BOE, page 14). Yet the Company offers no explanation regarding why the customer component is different from other savings-formula components derived from annual data. Annual storage therms per customer – another formula component – is derived from the annually updated average maximum daily quantity ("MDQ") for the rate classification multiplied by number of bank days, while the price-per-therm component is based on the most recent projected gas prices for the next annual injection period. (Carrying-charge rate is a fixed percentage determined in a prior Company rate case and the ALJPO's maximum percent of capacity utilized is based on two years of data the Company arbitrarily selects to represent colder and warmer years.) Accordingly Staff recommends rejection of the Company's proposed multi-year customer-number average.

Staff does not object to the Company's recommended reduction of the cost-of-gas savings-formula component to $0.24 per therm, a current and representative figure derived from the ALJPO's adopted methodology. The reduction notwithstanding, Staff still objects to the Company's recommended reliance on the $0.111-per-therm cost of storage inventory reflected in base rates (Peoples' BOE, page 15). The ALJPO correctly rejects the Company's recommendation (ALJPO, pages 62-63).

For all of these reasons, Staff requests the Commission reject both Appendix A and Alternative Appendix A included in Peoples' BOE. As a convenience to the Commission, Staff appends a substitute Appendix A calculating the 2002 savings credit using the ALJPO's methodology but inserting Peoples' $0.24-per-therm cost-of-gas component. Staff recommends updating the savings-credit calculation for 2003 and beyond by using annual data.

F. Standards of Conduct

Reply to Peoples' BOE

The ALJPO finds that Staff's proposed Standards of Conduct provide protection for customers participating in the Choices For You program. Although the Company does not dispute this conclusion, it now suggests that the Standards of Conduct be included in Company tariffs only until such time as the Commission acquires statutory authority to regulate residential gas suppliers (Peoples' BOE, page 17). Staff disagrees with this recommendation.

Both residential customers and customers consuming up to 50,000 therms annually are eligible for Choices For You (Peoples Exhibit A, page 5); Staff agrees with the ALJPO's conclusion that SVT suppliers serving both customer classes be subject to the Standards of Conduct (ALJPO, page 68). To the extent that pending legislation predicts the Commission's future statutory authority, Staff notes that one present proposal affects residential gas customers only (see Senate Bill No. 694, 92d Illinois General Assembly). If this or a similar legislative proposal is eventually adopted and the Standards of Conduct are eliminated from the tariffs, as the Company proposes, suppliers serving nonresidential Choices For You customers are no longer bound by any standards.

G. Performance Assurance

Reply to Peoples' BOE

The Company suggests the ALJPO errs in concluding that Staff's proposed performance-assurance calculation ($2.00 per therm of pool MDQ) is appropriate, offering three counterarguments. Staff finds all three Company criticisms without merit.

First, the Company incorrectly claims that "Staff did not perform any 'calculation' in arriving at the $2.00 recommendation" (Peoples' BOE, page 12). The ALJPO's approved calculation is the same approach the Commission recently favored in Nicor Gas Company's Customer Select proceeding. Staff finds the same performance assurance approved in Customer Select well suited to the Choices For You program.

Second, the Company suggests the performance-assurance calculation be based on projected future gas prices rather than a fixed dollars-per-therm figure. While this proposal has some merit, the Company does not describe how projected future gas prices might be included in the performance-assurance calculation in any of its three rounds of testimony in this proceeding, instead offering vague language without supporting calculation descriptions.

Third, the Company raises the Enron specter again, claiming that "the ongoing problems with Enron Corporation and its retail marketers are instructive as to the non-payment risks that face [the Company]" (Peoples' BOE, page 13). Yet the present record contains no evidence relating to Enron's recent financial challenges, non-payment risks or otherwise. Even if Enron's present difficulties affect the Company, this proceeding offers no basis for determining that the ALJPO's performance-assurance payment calculation insufficiently offsets any financial losses the Company might incur.

VII. OTHER ISSUES

C. Customer Education

Reply to CUB and CCSAO's BOE

CUB and CCSAO's BOE suggests two alternatives for the Company's customer-education program. As both options provide additional customer and supplier involvement in the education program, Staff offers no objection to the proposals.

CUB and CCSAO's preferred option asks that the Commission order the Company to seek comment regarding whether the customer-education program Nicor Gas Company uses for its Customer Select program is appropriate for the Company's Choices for You program. CUB and CCSAO also suggest additional workshops beyond the single workshop the ALJPO recommends, which can be cancelled if the parties agree that additional workshops are unnecessary (CUB and CCSAO's BOE, pages 3-4).

In the event any details of the Company's consumer education program remain unresolved upon completion of the workshops, Staff continues to recommend that the parties be permitted to petition the Commission regarding resolution of outstanding matters.

CONCLUSION

Wherefore, for the foregoing reasons, Staff respectfully requests that the Commission not include ALJPO exceptions proposed in Peoples' BOE and discussed above as part of its final order in this proceeding. Similarly Staff does not oppose the Commission including ALJPO exceptions proposed in CUB and CCSAO's Brief and discussed above as part of its final order in this proceeding.

Respectfully submitted,

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STEVEN G. REVETHIS
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Office of General Counsel
Illinois Commerce Commission
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Chicago, Illinois 60601
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Peoples Gas Light and Coke Company
Savings From Reduced Storage Inventory

		Rate 1	Rate 2	Total Company
1	Maximum Daily Quantity	15	65	
2	Days of Storage	22	22	
3	Annual Storage Therms per customer (Line 1 x Line 2)	330	1430	
4	Percent of max. capacity utilized	53.00%	53.00%	
5	Carring charge rate	9.19%	9.19%	
6	Price per therm	$0.24	$0.24	
7	Projected number of customers (2002) (Staff Ex. 7.0, Schedule 1, lines 6 & 14)	28,929	11,882	
8	Savings by customer class (Product of: Lines 3 x 4 x 5 x 6 x 7)	$111,596	$198,622	
9	Total Company Savings (Sum of Line 8)			$310,219
10	Total Company Savings per Customer (Line 9/Sum of Line 7)			$7.60
11	**Monthly Savings per Customer** (Line 10/12)			**$0.63**